COMMODITY OUTLOOK
FOR FARMERS

Cotton

May 78/C-2

This newsletter, which has been authorized by Congress, is sent to you by USDA. It is designed to help you make production and marketing decisions. If you would like to continue receiving it or any of the other newsletters in the series, return the form on the back with your name and address. (You need not return the form if you've already requested to be put on the mailing list.) All the newsletters will be issued as warranted during the year. Any comments as to how we can make these letters more useful to you as a producer are welcome.

As a cotton producer, you've probably firmed up your planting decisions by now. However, it's not too soon to consider your marketing strategy for the 1978 crop. This newsletter gives you an idea of how the cotton outlook is shaping up and reviews the cotton farm program, including USDA's latest changes.

1978 Production Lower Than Last Year's

Production: U.S. cotton production could range between 11 million and 13 million bales in 1978--compared with 14.4 million in 1977. Smaller production will be a big step toward correcting the supply/demand imbalance which has dominated the cotton market recently.

Smaller Acreage: Because of acreage reduction programs for cotton and feed grains and relatively strong soybean prices, farmers are planting fewer acres to cotton. About 12.9 million acres were indicated in a USDA survey taken March 27-April 4, compared with 13.7 million last year. The sharpest planned decreases were in the Southeast. Acreage in the Far West could increase 5 percent.

However, during the planting intentions survey, USDA announced a 10 percent paid diversion program for cotton that could cut plantings another half million acres or so.

Weather will also influence planted acreage. While plantings have benefited from generally favorable conditions in most areas of the Cotton Belt, cool weather has caused some delays in the Delta. On the High Plains of Texas, farmers are faced with a critical shortage of subsoil moisture which could adversely affect non-irrigated acreage.

Yields could decline: The odds are against a repeat of last year's unusually high average yield of 525 pounds per harvested acre. Moisture is badly needed in Texas and Oklahoma. However, the situation is excellent in California and generally adequate elsewhere.

What Recent Program Changes Mean

The recently announced paid land diversion program for upland cotton producers is an attempt to strengthen market prices by bringing cotton supplies into better balance with demand. Here are the details:

- Producers who divert acreage equal to 10 percent of what they actually plant in 1978 will receive a payment of 2 cents per pound for the program payment yield on their actual planted acreage. However, your planted acreage plus diverted acreage cannot exceed 1977 cotton plantings.

Approved by the World Food and Agricultural Outlook and Situation Board and published by the Economics, Statistics, and Cooperatives Service, USDA. May 1978.

For example, if you planted 100 acres of cotton in 1977 and wish to participate in the diversion program, you cannot plant more than 90.9 acres this year--diverting 9.1 acres. If your program payment yield is 500 pounds per acre, you will be paid $10 per planted acre, or $909.

- The option is still available to participate in the program--the sign-up deadline has been extended to May 15. An advance payment of 1 cent per pound is made at signup.

- If you signed up, you can still withdraw from the program at any time. Consequently, you should watch price movements and forward contracting opportunities and constantly re-evaluate your options.

Price and income supports announced earlier are unchanged: The loan rate for SLM 1-1/16-inch cotton is 44 cents per pound. The target price is 52 cents per pound. If the U.S. farm price for upland cotton averages below that for calendar 1978, you will receive a deficiency payment for the difference.

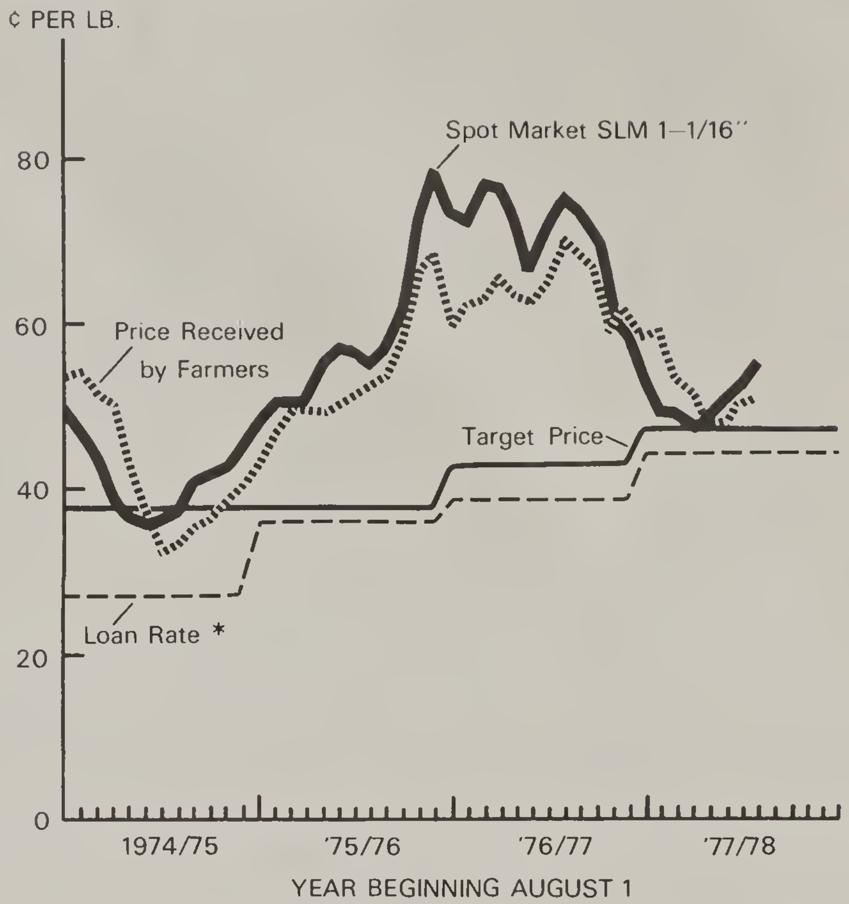
- If you reduce your cotton acreage by 20 percent or more from last year's level, you'll have target price coverage on 100 percent of your 1978 acreage. If you reduce your acreage by less than 20 percent, all your acreage may not be covered.

- The disaster payment rate is 17.3 cents per pound--1/3 of the target price. There is no limit on the total for your disaster payments.

Set-Asides: There is no set-aside for upland cotton. However, there are set-aside requirements of 20 percent for wheat and 10 percent for corn, grain sorghum, and barley.

You must comply with the set-aside requirement for all of these crops to be eligible for USDA price support programs on any of them.

U.S. COTTON PRICES



* SLM 1–1/16″, AVERAGE LOCATION

A cotton-sorghum producer, for example, must set aside 1 acre of cropland for every 10 acres of sorghum planted. If not, the producer will lose benefits for both sorghum and cotton.

Consult your local ASCS office about how program details relate to your farming operation.

Market Outlook: Exports Again the Bright Spot

U.S. cotton marketing prospects for 1978/79 are encouraging. With indications of a slight cutback in foreign production and perhaps a little improvement in consumption abroad, export demand for our cotton may again top 5 million bales.

In fact, shipments could total over 6 million bales if weather is unfavorable in other producing countries.

Strong U.S. cotton export sales have been the real bright spot in the current season's cotton demand picture. With last August's world cotton stocks

at the lowest level since 1961, 1977/78 has been a rebuilding year for most countries.

Because of our big supply of competitively priced cotton and recent weakness in the dollar, foreign importers have turned to the U.S. to fulfill a large part of their needs. We're also facing less competition from the Soviet Union this season.

As of mid-April, 3.5 million bales of U.S. cotton had been exported, slightly ahead of the year-earlier pace. Another 3 million bales have been sold for delivery by July 31. However, about a third of these sales may not be delivered until next season. Shipments during 1977/78 may total about 5.5 million bales, up from 4.8 million last season. This season's U.S. exports are accounting for nearly a third of world trade.

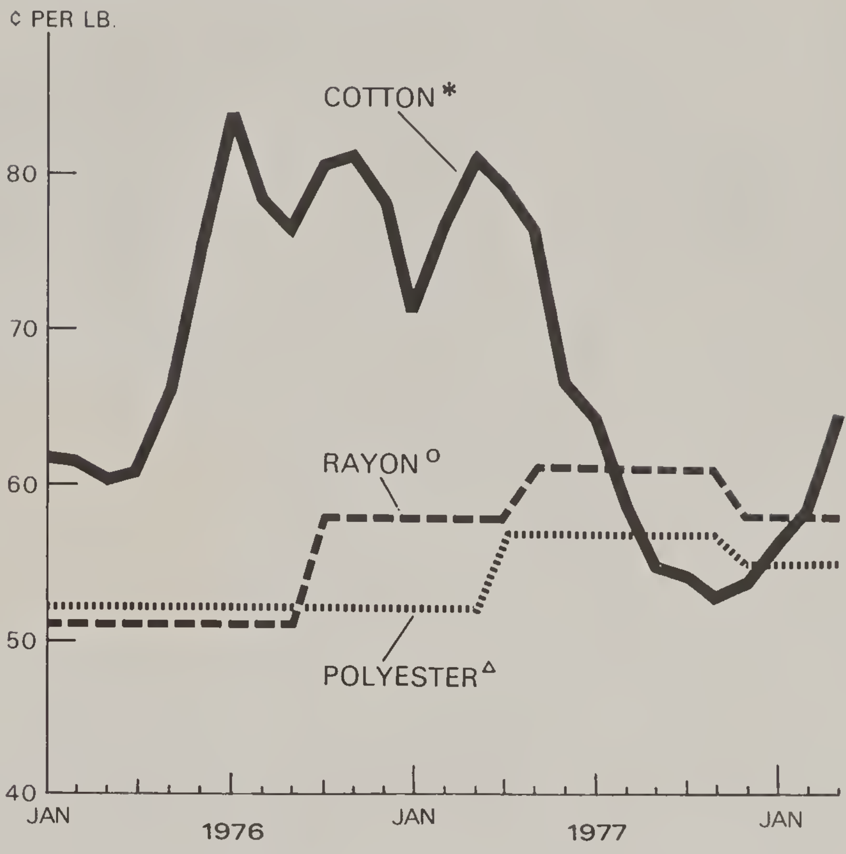
In contrast to the strong export demand, U.S. mill use of cotton remains sluggish. Several factors are responsible. In addition to competition from manmade fibers, domestic cotton use is confronted by continuing large imports of cotton textile products.

U.S. Cotton Supply and Demand (All Kinds)

	1976/77	1977/78 estimated	1978/79 projected[1] Alt. I	Alt. II
	Million 480-lb. bales			
Beginning stocks ..	3.7	2.9	5.4	5.4
Production	10.6	14.4	13.0	11.0
Total supply	14.3	17.3	18.4	16.4
Mill use	6.7	6.7	7.3	6.3
Exports	4.8	5.5	4.8	6.2
Disappearance ...	11.5	12.2	12.1	12.5
Ending stocks[2] ...	2.9	5.4	6.5	4.1
	Cents per pound			
Farm price	64.1	[3]52.0	([4])	([4])
Loan rate[5]	38.92	44.63	44.00	44.00

[1] Alternative I reflects favorable production conditions worldwide; Alternative II assumes unfavorable production conditions worldwide. [2] Does not equal previous season's supply less disappearance, primarily due to varying bale weights. [3] Average to January 1, 1978. [4] USDA is prohibited by law from projecting cotton prices. [5] For SLM 1-1/16" cotton.

U.S. RAW FIBER PRICES



* SLM 1-1/16" AT GROUP B MILL POINTS △ TYPE 54, 1.5 DENIER STAPLE
O 1.5 AND 3.0 DENIER, REGULAR RAYON STAPLE.

A new factor has also emerged in recent months--an oversupply of cotton denim fabrics. However, these inventories may be worked down rather quickly in view of recently announced price cuts. Once denim supplies and demand are in better balance, more cotton should be consumed in this extremely important market.

Demand remains relatively strong for other cotton goods. Continued firm demand for these products, coupled with recovery in denim production, points to the possibility of some pickup in cotton mill activity by next season if cotton prices remain competitive with manmade fibers. However, if cotton prices should rise sharply for any reason, mill use could drop below 6.5 million bales.

This season, U.S. mills may consume around 6.7 million bales, about the same as in 1976/77.

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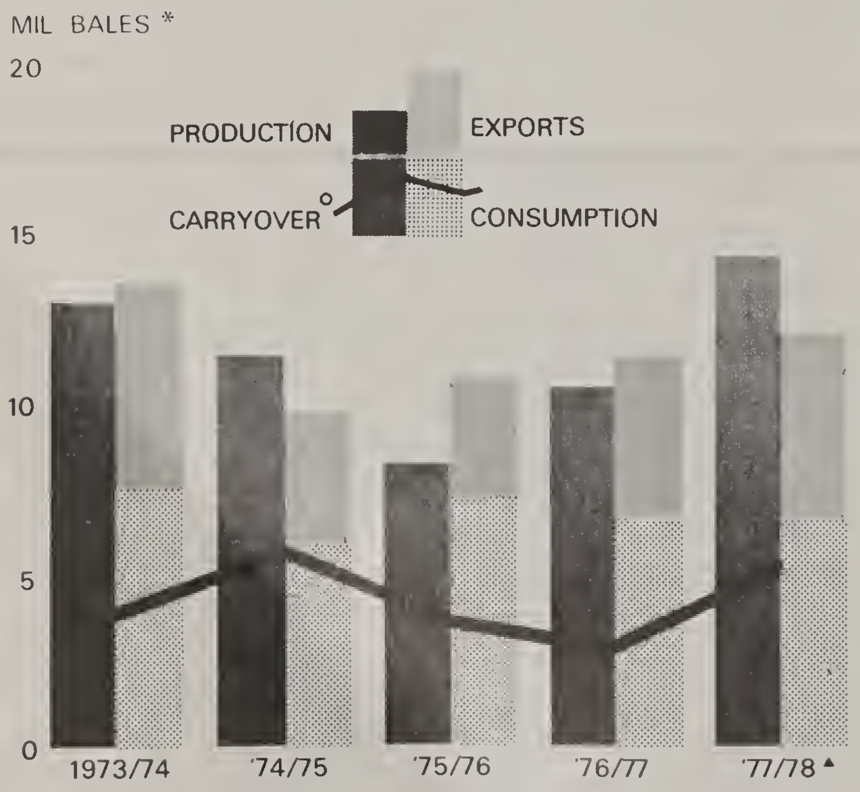
The Bottom Line

Stocks are increasing sharply this season--not as much as we expected earlier, but still by about 2.5 million bales. The August 1, 1978, carryover may total nearly 5.5 million bales, almost double last summer's level and over 1 million above the 1972-76 average. About 2.5 million bales of this season's 14.4-million-bale crop are currently under CCC loan.

COTTON PRODUCTION, USE AND CARRYOVER



* 480–POUND NET WEIGHT BALES °ENDING CARRYOVER ▲PRELIMINARY

Though prices have strengthened in recent months, primarily reflecting big export sales, they remain 15 to 20 cents a pound below last spring's high levels. The average U.S. spot market price for SLM 1-1/16 inch cotton was 56 cents a pound on April 26, compared with 72 cents a year earler.

Stay alert to forward contracting opportunities for your 1978 cotton. If you haven't already booked a portion of your production, consider doing so if offered a profitable price.

About a tenth of the 1978 crop had been contracted as of April 1, compared with 16 percent a year earlier. By regions, contracting ranged from 2 percent of the Southeastern crop to 29 percent of Far Western production. In the Southwest and Delta regions, contracting stood at 6 and 11 percent, respectively.

With recent December 1978 cotton futures hovering around 60-62 cents per pound, contract prices have ranged from the high 40's in western Texas and Oklahoma to the low 60's in the Far West. Most Delta and Rio Grande Valley cotton has been booked for around 54-56 cents a pound.